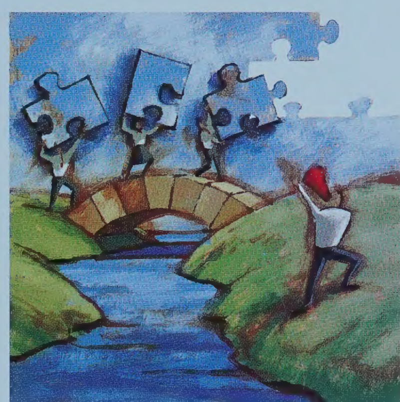
Versacold Corporation

1999 Annual Report



Toward Operational Excellence

Versacold Corporation is Canada's leading supplier of frozen and refrigerated storage, distribution and processing services to the North American food industry.

The Company opened in 1946 as B.C. Ice and Cold Storage Company, providing processing and frozen warehousing services to Canada's West Coast fishery. As the frozen and refrigerated food industry has grown and evolved, Versacold has kept pace with a steady expansion in services and facilities.

Today, Versacold operates 23 temperature-controlled facilities, and the only integrated national refrigerated distribution network in Canada. The sixth largest company of its kind in North America, Versacold serves more than 1,700 customers, including food producers and processors, wholesale and retail distributors, hospitals, restaurants and institutions.

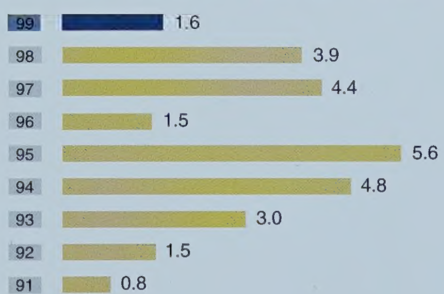
Contents

Financial Highlights

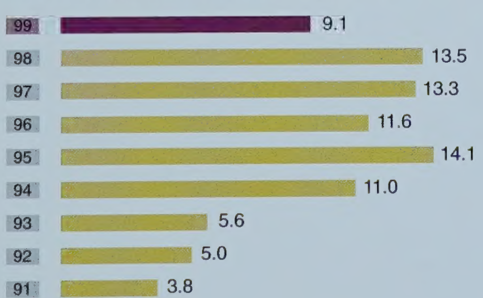
	1999 000's	1999 Per Share	1998 000's	1998 $ Per Share
Operating Results				
Sales	$ **120,209**		$ 117,765	
Profit contribution	**30,253**		34,764	
Net income	**1,547**	$ **0.16**	4,026	$ 0.42
Cash Flow				
EBITDA	$ **21,493**		$ 26,194	
Cash flow	**9,112**	$ **0.94**	13,477	$ 1.40
Free cash flow	**11,792**	$ **1.22**	6,720	$ 0.70
Capital spending	**8,414**		12,266	
Value				
Total assets	$ **236,864**		$ 229,168	
Return on equity	**2.4%**		6.5%	
Cash flow return on equity	**14.4%**		21.6%	
Debt				
Debt to Total Capital	**59.2%**		58.1%	
Debt coverage by EBITDA	**1.45x**		1.60x	
Net income excluding gain on sale of assets	**1,588**		3,854	

Sales
(millions of dollars)
Compound Annual Growth Rate 1991 to 1999 21.3%

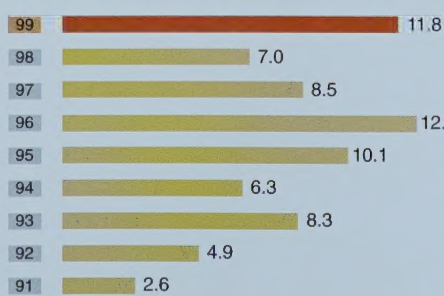
Net Income (excluding gain and loss on sale of assets)
(millions of dollars)
Compound Annual Growth Rate 1991 to 1999 8.2%



Cash Flow
(millions of dollars)
Compound Annual Growth Rate 1991 to 1999 11.7%



Free Cash Flow
(millions of dollars)
Compound Annual Growth Rate 1991 to 1999 21.0%



Versacold's integrated network of 23 refrigerated and frozen food Distribution Centers provides approximately 58.0 million cubic feet of refrigerated storage capacity, and a full range of temperature-controlled distribution services. From these facilities, the Company can service virtually any aspect of a customer's temperature-controlled food handling needs including the storage and management of raw ingredients, processing and freezing, inventory management, and complete third party local, regional and national distribution.

National Distribution

- logistics program design
- blast freezing
- handling and cold storage
- cross docking
- order assembly
- inventory management
- shrink wrapping
- data entry and invoicing
- freight consolidations, Less Than Truck Load (LTL) services
- city deliveries and Direct Store Delivery (DSD) programs
- on-line inventory screen access
- Electronic Data Interchange (EDI)
- complete 3rd party distribution services

Packaged Goods

- blast freezing
- handling and cold storage
- cross docking
- order assembly
- inventory management
- shrink wrapping
- trichinosis treatment
- stamping, stickering
- weight tallying
- container loading/unloading
- export documentation
- transportation services

Commodity Services

Berries and Agricultural

- Individual Quick Freezing (IQF) – specialized conveyor through a blast tunnel
- case, pail or drum freezing, handling and storage
- repacking into totes or cartons
- boxing services
- quality control services
- truck or container loading for export or delivery
- export documentation
- transportation services

Fish & Seafood

- boat unloading
- Individual Quick Freezing (IQF) – roe herring and ground fish fillets
- brine freezing – herring/crab
- rack freezing – salmon
- handling and cold storage
- grading
- heading and washing
- glazing
- boxing
- inspection services
- container loading or unloading
- export documentation
- transportation services
- ice sales

Profile of Operations

Distribution Centers

(storage capacity in millions of cubic feet)

● National Distribution Network Hubs

1. Vancouver Area
Harbour – 2.73
Corpak – 3.89
Cliveden – 4.12
● Derwent – 2.30

2. Fraser Valley
Baker – 3.10
Valley – 1.72
Matsqui – 1.00

3. Kamloops
Victoria – 0.10

4. Lynden, Washington
Cascade – 3.54

5. Edmonton
20th Street – 1.37
Mount Lawn – 0.76
127th Avenue – 0.48

6. Calgary
Brandon – 1.87
Ogden – 1.90
● Great Plains – 4.10

7. Lethbridge
28th Street – 1.30

8. Saskatoon
Patrick – 0.20

9. Regina
Elliott – 0.56

10. Winnipeg
Dawson – 4.50
Jarvis – 1.56

11. Toronto Area
● Walker – 8.62

12. Chatham
Bothwell – 0.84

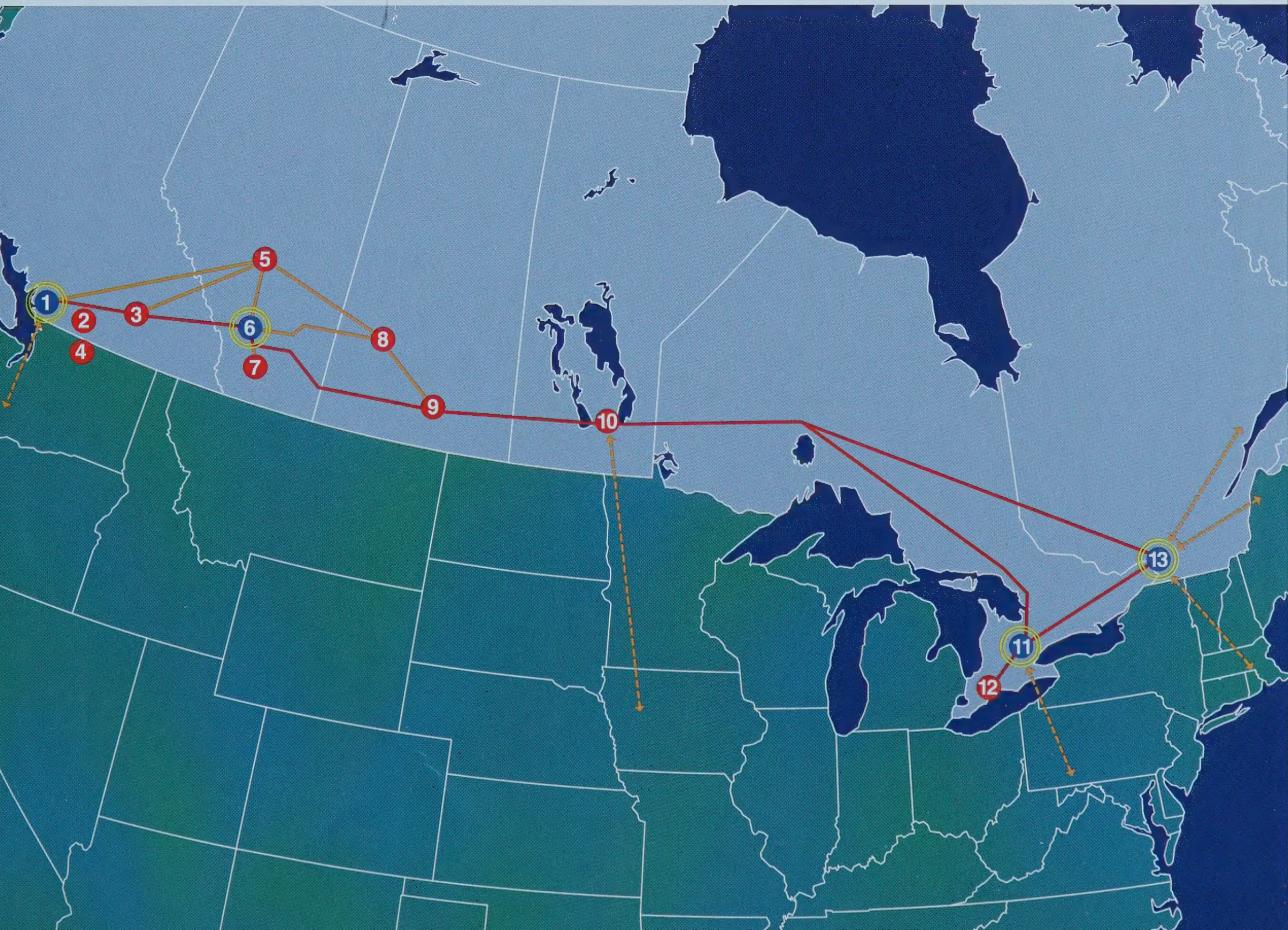
13. Montreal
● Frigo – 7.47

Totals

Refrigerated storage capacity – 58.0

Including dry storage, processing and office space – 66.5

National Distribution Network Hubs
National Distribution Network
Distribution Gateways
Regional Distribution



The past year was a challenging one for Versacold Corporation. While we enjoyed a strong first quarter, the performance during the balance of 1999 was well below potential.

We took a number of steps during the year to address specific operating problems, including a realignment of the senior management team. Entering 2000, Versacold is back on track to deliver enhanced performance with a company-wide focus on operational excellence.

Financial Results Reflect Isolated Problems

For the year ended December 31, 1999, Versacold generated revenues of $120.2 million, up two per cent from 1998 revenues of $117.8 million. Cash flow from operations decreased by $4.4 million to $9.1 million from $13.5 million in 1998. Direct profit contribution decreased by $4.5 million to $30.3 million from $34.8 million in 1998. Net income decreased by $2.5 million to $1.5 million ($0.16 per share) from $4.0 million ($0.42 per share) in 1998.

These decreases were attributable to a labour disruption and related under-utilization of capacity at the Walker Center in Toronto, poor results in the western Canadian transport operations, and a late berry season.

Successes Include Growth at Key Facilities and a New Financing Structure

Versacold had a number of successes during 1999. A new long-term supply agreement was reached with Overwaitea Food Group, significantly increasing the volume of business with this key customer. The resulting $10 million expansion of the Baker facility in Abbotsford, B.C., successfully launched in November 1999, is expected to significantly improve the profitability of this operation. In Alberta, the 1998 expansion of the Lethbridge Center is continuing to increase profitability, with 1999 throughput up 33 per cent over the previous year.

A further success was the refinancing of existing debt facilities at a lower rate of interest, generating annual interest savings

Newly expanded Baker facility in Abbotsford, B.C.

During the year, we also announced the formation of EV Logistics, a partnership with Exel Logistics. This new business is designed to serve the growing number of large food manufacturers and grocery retailers who want a single source provider to manage their combined refrigerated and dry goods supply chains.

Loading produce for shipment at Baker Center.

of approximately $1.4 million. These savings will be partially offset by additional interest expense on a higher level of debt. The new financing structure provides greater flexibility to incur additional debt if supported by Versacold's performance.

During the year, we also announced the formation of EV Logistics, a partnership with Exel Logistics. This new business is designed to serve the growing number of large food manufacturers and grocery retailers who want a single source provider to manage their combined refrigerated and dry goods supply chains.

Senior Management Changes Target Bottom Line

The senior management team was realigned to leverage the strength of our operating talent and improve Versacold's performance. Bob Lewarne, now Senior Vice President, Operations, brings more than 20 years of experience in public refrigerated warehousing and is responsible for Versacold's warehouse and transportation operations. New Eastern Region General Manager, Howard Neufeld is responsible for the Montreal and Toronto distribution centers. Bruce Smashnuk heads up the Alberta region, which includes the Calgary distribution center. Ken Northrup is in charge of the Vancouver region, including the Derwent distribution center. Collectively, these knowledgeable people bring to bear more than 70 years of experience with the Company. They are supported by experienced line managers across the network.

In January 2000, Lionel Dodd resigned as President and Chief Executive Officer. A North America-wide search for his replacement has commenced and it is expected that a new CEO will be hired by the end of the second quarter of 2000. We are seeking an individual with the operational skills, business acumen and value-added logistics services background to elevate our financial performance.

Established Strengths Will Support Future Growth

With a new management structure and strong industry growth fundamentals, we are focused on the execution of Versacold's unchanged two-part business strategy. Between 1996 and 1998, we made significant investments in assets and new services to create Canada's only fully-integrated national refrigerated distribution network. In 1998, we launched the second part of the strategy, turning our attention to people, processes and productivity. Our objective is to become more responsive to changing markets and our customers' evolving needs. We also intend to respond to challenges to reduce costs.

In the past year, our leadership in the industry has been challenged by our operating performance and, to a lesser extent, by new competition in the marketplace. Despite the difficulties we have experienced, we remain in the best possible position to service a fully-integrated national refrigerated distribution network. Throughout 2000, we will be working to re-assert Versacold's advantage by capitalizing on our established strengths: our people, our facilities and our national distribution capabilities.

To create value for shareholders and customers, we have sharpened our focus on operational excellence. Results for the first quarter of 2000 indicate that we are making progress toward improved financial performance. As we move forward, we will be directing all resources and attention to capitalizing on the dynamic potential of our facilities and the National Distribution Network to enhance Versacold's operating performance.

To this end, the Board has suspended the payment of dividends and will deploy these funds to deliver on the shareholder value that exists within Versacold. By investing in the business, and particularly in employee training and new information technology, we believe we can generate a better overall return.

On behalf of the Board, I acknowledge with deep appreciation the hard work and commitment of Versacold employees across the country. During my visits to each of Versacold's 23 centers since year-end, I was impressed and inspired by the magnitude of the contribution you make to the business every day, as well as your breadth of experience and overall level of enthusiasm.

Finally, we thank our customers for your confidence in our services and your willingness to explore new avenues in which Versacold can contribute to the profitability of your business.

Sam Gudewill

Sam Gudewill
Chairman of the Board
Interim President and Chief Executive Officer

During 1999, the rapid pace of change in the food industry continued to be reflected in our customer's changing supply chain patterns. Increasingly, retailers want product in their stores on a "just-in-time" basis with continuous replenishment. Instead of shipping a truckload to each customer every few weeks, manufacturers are now moving much smaller volumes of product, much more frequently.

Responding to Opportunities and Challenges

More and more companies are outsourcing the processing, handling, storage and distribution of temperature-controlled food to third-party service providers. As Canada's only national third-party provider of fully integrated refrigerated distribution services, Versacold is ideally positioned to benefit from this continuing trend. Strong growth in the consumption of frozen and refrigerated food products will also support the growth of our business. This sector is expanding at three times the rate of the food industry as a whole.

Hand-in-hand with the opportunities created by changes in the food industry come new challenges. The evermore complicated logistics involved in responding to new distribution trends necessitate on-going planning and application of sophisticated information technology. At the same time, our major customers are becoming more sophisticated in the purchasing of third-party distribution services, and are challenging us to reduce our costs. This, in turn, means we must optimize our efficiency to protect our profit margins.

In 1999, to meet the increasing demand from grocery manufacturers and retailers for a single-source provider to manage their combined perishable and ambient supply chains, we entered into a partnership with Exel Logistics to form EV Logistics. No single company can provide the depth of expertise and resources that Exel and Versacold bring to this partnership. EV Logistics' services will extend beyond the traditional management of distribution centers and transportation operations to incorporate a full range of operational and planning skills, including freight consolidations, cross docking, merge in-transit operations, reverse logistics, and network analysis and design.

Optimizing our Network

The fact that Versacold provides both warehousing and transportation service is a key competitive advantage for the Company. Many of our competitors offer only one or the other. As food manufacturers zero in on their own core competencies and outsource finished goods distribution, it makes sense to utilize a third party supplier who can deliver

an integrated service combining warehousing programs with both inbound and outbound transportation services.

By offering an integrated distribution network, Versacold is able to develop unique solutions to meet our customers' specific needs. At the same time, our critical mass of 1,700 customers provides many opportunities to create customer value by consolidating distribution services. Due to their short shelf life, perishable goods are generally distributed in small volumes on a frequent basis. By combining multiple orders in a single truckload, Versacold can deliver the goods to market cost-effectively, which helps our customers keep their expenses down.

Our past success in uniting our transportation and warehousing logistical design groups provides a platform for the future optimization of our distribution network. In 2000, we will continue to integrate the transportation network with our warehouse operations, in order to strengthen the distribution network as a whole. In addition, we will be expanding our transport services, and introducing new initiatives such as the integration of our trucking network with other transport methods.

1999 Objective

Refine product mix within National Distribution Network (NDN) facilities to optimize space utilization.

1999 Achievement

Achieved targeted capacity levels at majority of NDN facilities. Utilization at Toronto hub was significantly below target due to second quarter labour disruption.

As well as working to fully capitalize on the twin strengths of our National Distribution Network, we have dedicated ourselves to enhancing service, quality and value. We are investing in our people, improving our business processes, expanding our information technology capabilities and strategically upgrading our facilities in partnership with our customers. Our corporate focus for the year 2000 is operational excellence.

Moving it Right: Putting Best Practices to Work

By putting the right people, processes and tools in place, we are working to generate measurable improvements to productivity and performance across our organization. Our goal is to "Move it right, the first time and every time."

A milestone in 1999 was the development of consistent, standard operation procedures (SOPs) that support Versacold's redesigned integrated service delivery process by a team of employees from across the country. Through training, better planning and better communication, this employee-driven initiative will give employees the information they need to do their job better.

Our new SOPs emphasize the early harvesting of information. Getting as much information as possible at the first point of contact with our customer enables us to plan more effectively. We have also introduced traffic planning offices as the nerve centers of

Versacold shareholders are also benefiting from our ability to realize savings in the energy area, where costs are rising rapidly. Capital investment in refrigeration and engine room upgrades, as well as innovative energy-saving initiatives, such as the use of variable-speed microprocessors and off-hour operation of compressors, have allowed us to reduce overall energy expenditures by six per cent.

our operations. The central management of vehicle, product and paper movement has improved internal communications and successfully integrated functional departments that previously acted independently. The end product is greater teamwork by Versacold employees and consistent service for customers.

The positive impact of our best practices initiative is already being felt. At our Walker facility in Toronto, our largest center, the introduction of a shipping planning office in November 1999 has enhanced our capabilities in this area. A pilot SOP training program at our Derwent facility in Vancouver in early 2000 will be followed by a roll-out of the program to our National Distribution Network hubs in Calgary, Toronto and Montreal.

1999 Objectives

- Refine process flow and Standard Operating Procedures (SOPs) to gain further operating efficiencies and enhance service levels.
- Implement comprehensive training program focused on continuous improvement.

1999 Achievements

- Published a comprehensive Standard Operating Procedures (SOP) manual.
- Developed sophisticated training materials to support roll-out of SOPs in early 2000.
- Realigned management structure to capitalize on existing operational expertise.
- Appointed regional General Managers focused on operational excellence.

Managing Costs

Our success in controlling costs remains central to Versacold's ability to operate efficiently and profitably. The productivity programs we initiated in 1998 have had a clear and positive impact on our organization, providing productivity measures for day-to-day management of costs and service delivery. During 1999, we made progress in the management of our two most significant variable costs - labour and energy.

In the labour arena, we have realized about one quarter of the potential for labour savings, but we need to go much further. During 2000, in addition to eliminating redundant labour through the company-wide roll-out of our standard operating procedures, we will be implementing a performance management program aimed at improving each employee's productivity.

Versacold shareholders are also benefiting from our ability to realize savings in the energy area, where costs are rising rapidly. Capital investment in refrigeration and engine room upgrades, as well as innovative energy-saving initiatives, such as the use of variable-speed microprocessors and off-hour operation of compressors, have allowed us to reduce overall energy expenditure by six per cent. Our outstanding progress in this area was recognized at the 1999 Canadian Energy Efficiency Awards. Versacold was ranked second among 180 nominees for the 49 per cent reduction in energy use we achieved at our Walker facility in Toronto in 1998.

1999 Objective

Implement Hazards Analysis Critical Control Points (HACCP) within NDN facilities.

1999 Achievement

Developed Hazards Analysis Critical Control Points (HACCP) plans for all Versacold facilities.

Partnering with Employees

During 1999, we successfully negotiated our first collective agreement at our Walker Center in Toronto. While collective agreements are not new to Versacold, this agreement was particularly complex. Union certification was precluded at our Cliveden Center in Vancouver and our Ogden Center in Calgary after discussions between management and employees successfully resolved key issues. In 2000, our outlook is for stable labour relations with three labour contracts at two of our smaller facilities up for renewal.

Versacold made significant investments in improving internal communications in 1999 with an emphasis on providing more structure and consistency for employees. A manual establishing standard, company-wide terms, conditions and policies for hourly employees was drafted and piloted during the year. The planned roll-out of this important manual at all Versacold facilities in 2000 will create a more equitable working environment for our employees.

A number of other employee programs introduced during the year were well received. Our new flexible benefits program enables employees to choose the level of coverage they require. Our expanded employee assistance program has already been extensively utilized. A peer review process was established for managers and will be extended to supervisors in 2000. We also put in place a dispute resolution program to address specific work-related issues of importance to employees at individual sites.

The performance management program will be enhanced in 2000 to reward operational excellence, as measured through Key Performance Indicators (KPIs). Established in 1999, these measures track financial performance, on-time delivery, order accuracy, internal processes and continuous improvement. We now have the capacity to track performance against KPIs on an individual center basis and are working to expand some KPI measurements to an individual employee and customer level. Ultimately, this will allow us to extend incentives to all employees based on their personal performance.

Partnering with Customers

Through the process of partnering with customers, we are able to develop unique solutions that meet their specific needs. In August 1999, we announced a new long-term supply agreement with Overwaitea Food Group, a Versacold customer since 1985. The Company now provides distribution services in B.C. for all of Overwaitea's perishable commodities, including frozen grocery, bakery, meats, packaged and

Versacold continues to apply technology to improve customer service. We implemented a new Transportation Management System in 1999, enhancing day-to-day operations with such new functions as document imaging for Proof of Delivery and bar coded probill information to assist in data retrieval and information transfer.

counter-ready meats, dairy, and fruit and vegetables. In the last half of the year, we completed the majority of a $10 million expansion of our Abbotsford, B.C. facility to accommodate the additional business this contract included. We were able to manage this business throughout an aggressive five-month construction period, working closely with Overwaitea to design, locate and install new produce handling facilities. Our new agreement marks a shift from a transactional to a fee-based relationship, enabling us to further enhance the value of our services as Overwaitea's logistics partner.

1999 Objectives

- Investigate new opportunities for profitable growth through partnering with customers and employees.
- Identify additional value-added services in response to customer needs.
- Leverage critical mass to create value for our packaged goods customers utilizing NDN consolidation services.

1999 Achievements

- Significantly expanded volumes in B.C. through new, long-term supply agreement with Overwaitea Food Group.
- Introduced customer-specific value added services such as export programs and direct freight consolidations.
- Assisted many customers in establishing regional inventories "close to market" and with product replenishment through the network.
- Renewed contracts with a number of long-term customers.

Our partnership with Maple Leaf Foods continues to pay significant dividends to both parties. In 1998, we expanded our Lethbridge, Alberta facility to increase existing production capacity by 25 per cent. As a result, potato volumes increased from 1998 to 1999, with a projected further increase in 2000. In response to continued growth in demand for french fry products, Maple Leaf continues to review further expansion of its production capacity. This expansion will require the investment of approximately $1.6 million for engine room upgrades by Versacold in 2000/2001. In addition, we are jointly looking at alternatives to reduce utility costs, which may entail further investment.

Versacold also worked with major customers during 1999 to install their in-house Radio Frequency Systems in our facilities. This enables us to provide real time inventory management and order selection. Other customer-driven programs include a freight

consolidation program for a large U.S.-based customer and the establishment of a dedicated facility to box and label export shipments, prepare export documentation and carefully load containers for transfer to the port for export.

Harnessing the Power of Technology

Versacold continues to apply technology to improve customer service. We implemented a new Transportation Management System in 1999, enhancing day-to-day operations with such new functions as document imaging for Proof of Delivery and bar coded probill information to assist in data retrieval and information transfer. We also extended our use of Electronic Data Interchange (EDI) technology during the year and will be setting up additional EDI trading partnerships with our customers in 2000.

In late 2000, the Company plans to introduce a new Warehouse Management System to help us track product flow and associated costs more effectively. The new system will automate key processes, enabling us to greatly reduce paper flow and maximize the capacity of all our facilities.

Initiatives such as these, combined with a commitment to operational excellence and a drive to optimize our distribution network, will help us grow shareholder value in the upcoming year. Our priority in 2000 is to re-assert and secure Versacold's leadership in the refrigerated distribution sector.

1999 Objectives

- Secure the right incremental packaged goods business to offset seasonal harvest crop inventory peaks and valleys.
- Partner with customers to forecast capacity requirements and to efficiently schedule inbound and outbound harvest crop activity.
- Extend existing harvest crop agreements to ensure stability for both Versacold and our customers.

1999 Achievements

- Made good progress in securing packaged goods business to offset season inventory swings.
- Lowered costs to key customers through freight consolidations of products stored at specific Versacold sites.
- Created Berry Crop Teams to collaborate with the customers in planning seasonal capacity and service requirements.

Year 2000 Priorities

- Enhance service, quality and value within our network through the roll-out to Versacold's four distribution hubs of Standard Operating Procedures for the redesigned integrated service delivery process.
- Improve shareholder return through better cost control, most notably labour cost management and network optimization, including expanded regional distribution, freight consolidations in the harvest crops sector and strategic alliances with other transport modes.
- Continue to strengthen customer relationships by partnering with customers to identify and meet individual requirements, extending the range of services provided to key customers, enhancing relationships at the customer and Versacold senior levels and improving service levels.
- Expand systems capabilities to provide enhanced customer access to information and to improve the quality of information available to manage the business on an on-going basis.

Business of the Company

Versacold Corporation is Canada's only national supplier of public refrigerated warehousing and distribution services. It offers food industry customers a full range of temperature-controlled, integrated supply chain management services, including warehousing, food processing, inventory management, less-than-truckload transportation, warehouse-based distribution and direct-to-store distribution services. The Company operates 23 warehouse and distribution facilities providing approximately 58.0 million cubic feet of refrigerated and frozen storage capacity in key Canadian markets and in Washington State.

An operational highlight during 1999 was the signing of a new long-term supply agreement with the Overwaitea Food Group. Versacold has been a third party distribution provider to Overwaitea since 1985. The Company has been contracted to deliver distribution services in British Columbia for all of Overwaitea's perishable commodities. The consolidation of perishable food distribution services and the resulting additional volumes required the expansion and upgrading of the Baker facility in Abbotsford, B.C. at a cost of $10 million and will provide Overwaitea with a world-class centralized distribution facility.

During the year, the Company announced the formation of EV Logistics, a partnership designed to meet the increasing demand for integrated multi-temperature warehousing and transportation management in North America. Customers for the new company will include large grocery manufacturers and retailers who desire a single source provider to manage their combined refrigerated and dry goods supply chains.

Review of Operations

Fiscal 1999 Compared to Fiscal 1998

($ millions except per share calculations)	1999	1998	Change
Revenue	$ **120.2**	$ 117.8	2.0 %
Direct profit contribution	**30.3**	34.8	-12.9 %
Direct profit contribution margin (percentage of revenue)	**25.2**	29.5	-4.3 pts
Cash flow per share	**0.94**	1.40	-32.9 %
Earnings per share	**0.16**	0.42	-61.9 %

Although the year began with a strong first quarter, operational issues arising in the second quarter impacted the results for the balance of the year, including:

- Lower than anticipated capacity utilization at the Walker facility in Toronto as a result of labour disruption;
- Lower margins in western Canadian transportation business; and
- The year's late berry season.

Revenue

For the 12 months ended December 31, 1999, revenue increased by 2% to $120.2 million from $117.8 million in 1998. Although not significant, the increase in revenue was achieved in spite of problems at the Walker facility in Toronto. This increase can be attributed to investments made in earlier years:

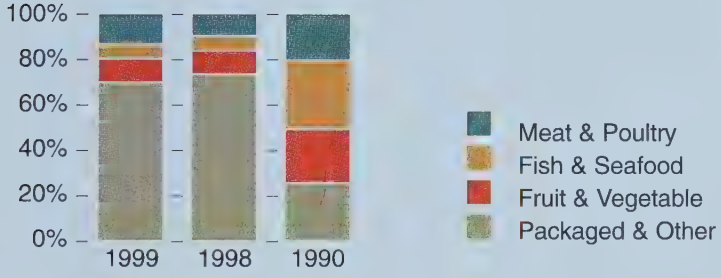
– In 1998, the Company invested $1 million to upgrade its Lethbridge, Alberta facility, which increased capacity by 25%. The upgrade was made in conjunction with upgrades Maple Leaf Foods made to its adjoining plant. As a result, potato commodity throughput from this facility increased by 33% in the first full year of operation of the upgraded facility.

– The 1997 investment in the Great Plains facility in Calgary continued to realize value with an increase in revenues of 17% over 1998. The majority of this increase came from customers with fast turning product, which is accommodated by the facility design.

– Throughput continued to increase at the Dawson facility in Winnipeg as a result of the 1997 investment, resulting in an increase in revenue of 5%.

These revenue increases were partially offset by the lower than anticipated revenues at the Walker facility in Toronto. During the second quarter, a number of customers moved product to other facilities in anticipation of a labour dispute pursuant to negotiations with a new union. The Company successfully negotiated a labour contract without a strike at the end of the second quarter. For the remainder of the year and into 2000, the focus is to bring the Walker utilization rate to its capacity.

As indicated in the chart below, the Company's business continues to focus on the more stable packaged and other foods sector, which was marginally lower than in 1998, as opposed to focussing on the seasonal and cyclical harvest crops.



In the fruit and vegetable category, berry inventory carried over from 1998 was higher than in the previous year, resulting in improved first quarter revenues. This increase was offset by a later and shorter berry season in the current year. The net result was that revenues remained constant with those of 1998.

Fish and seafood revenues were fairly consistent with 1998 as a result of higher volumes of herring being processed in both years. As anticipated, salmon revenues were again low due to a reduced Pacific fishery. In response, the Company continues to reduce its reliance on salmon and to re-deploy space to packaged goods.

Meat and poultry revenues increased year-over-year as a result of the additional capacity created by the 1997 expansion of Versacold's Winnipeg facility. In addition, 1999 saw the full year impact of new customer contracts signed in 1998.

Direct Profit Contribution

Although revenues in 1999 exceeded the 1998 level, direct profit contribution decreased by $4.5 million to $30.3 million from $34.8 million in 1998.

More than half of the shortfall can be attributed to the Walker facility in Toronto. The facility was relaunched upon negotiation of the first collective agreement at the end of the second quarter, which involved the implementation of revised operating procedures and training of staff. The disruption in labour during this period resulted in lower service levels and additional costs, which adversely impacted the contribution from this facility.

Reduced profitability in our Western Canada transport operations accounted for another 33% of the shortfall and resulted from customer base changes, a shift in the nature of services provided to customers and increased competition. To achieve lower transport costs, a number of customers have shifted from less than truckload (LTL) shipments to retail consolidation programs.

In 1998, the Company invested $1.5 million in a productivity program aimed at achieving labour efficiencies. Labour savings in the targeted facilities amounted to 3.3% ($0.4 million) during 1999. Further savings are realizable in the next few years. Also in 1998, the Company commenced an energy efficiency program aimed at reducing energy consumption. During 1999, energy savings of 5.9% ($0.4 million) were achieved.

General and Administrative Expenses

G & A expenses were managed in response to underperformance in other areas of the Company and as a result were $0.2 million over 1998 for a total of $8.8 million. During 1999, the Company developed Standard Operating Procedures (SOPs) to be applied across the country with a view to enhancing customer service and operational effectiveness. Implementation commenced in early 2000 and will continue into 2001.

Amortization

Amortization decreased from 1998, as follows:

($ millions)	1999	1998
Capital assets	$ **5.9**	$ 6.3
Deferred charges	**0.6**	0.8
Goodwill	**0.2**	0.2
	$ **6.7**	$ 7.3

Amortization of capital assets decreased, as a number of assets are now fully amortized. Certain deferred amounts were fully amortized in the current year, which resulted in a lower amortization expense than 1998.

Interest Expenses

The interest expense for 1999 was consistent with 1998 even though the Company completed the refinancing of over $130 million in debt on October 22, 1999. Under the new financing structure, the Company has increased its flexibility and will realize annual interest savings of about $1.4 million. These savings, achieved through a 1.6 point interest rate reduction, will be partially offset by additional interest expense on a higher level of debt.

Other Income

Other income consists primarily of a gain from the demutualization of the Company's life insurance carrier. The value of the policy attributed to the participation in ownership was paid to the Company.

($ millions)	1999	1998
Gain from demutualization	$ **0.4**	$ –
Gain on sale of assets	–	0.9
Asset write downs	–	(0.6)
Other	**0.1**	0.1
	$ **0.5**	$ 0.4

Income Taxes

The basic tax rate remains unchanged from the prior year at 36%. However, as a percentage of income before income taxes, taxes have increased to 50% in 1999 from 44% in 1998. The increase occurs because certain components of tax, such as large corporations' tax, and the tax effect of certain permanent differences do not vary significantly with changes in income. As income decreases, the tax impact of these items remains fairly constant, resulting in an overall increase in the effective tax rate. More detail on income taxes and tax rates is provided in the Notes to the Consolidated Financial Statements.

Net Income

At $1.5 million ($0.16 per share), net income was significantly below 1998 levels of $4.0 million ($0.42 per share). This can be attributed completely to the decrease in profit contribution.

Cash Flow

For 1999, cash flow derived from operations was $9.1 million ($0.94 per share) compared to $13.5 million ($1.40 per share) in 1998. The decrease in cash flow is attributable to the decrease in profit contribution.

Management maintains the view that, due to the unique characteristics of the industry and the Company, cash flow is a better measure of corporate performance than earnings. Cash flow from operations represents the cash generated by the operations of the Company after adjusting for non-cash items, such as amortization and deferred income taxes.

As shown in the table below, the Company remains in a position where cash flow is consistently higher than net income. In Canada, the Company is not currently "cash" taxable and sustaining capital expenditures are less than amortization.

($ millions)	1999	1998	1997	1996	1995
Net Income	**$ 1.5**	$ 4.0	$ 4.5	$ 1.6	$ 6.6
Deferred income tax	**0.8**	2.4	3.1	1.4	4.1
(Gain) loss on sale of assets	**0.1**	(0.3)	(0.3)	0.1	(1.6)
Amortization	**6.7**	7.4	5.9	5.9	5.0
Special charges	–	–	–	2.6	–
Cash flow from operations	**9.1**	13.5	13.2	11.6	14.1
Changes in working capital	**4.2**	(5.0)	(3.2)	2.8	(2.1)
Sustaining capital expenditures	**(1.5)**	(1.8)	(1.5)	(1.9)	(1.9)
Free cash flow	**$ 11.8**	$ 6.7	$ 8.5	$ 12.5	$ 10.1

Free cash flow is the cash available after adjusting cash flow from operations for working capital requirements and capital expenditures necessary to sustain capital assets employed in the business in good working condition. In effect, free cash flow represents the cash available to meet debt repayments, dividend payments and investment in expansion capital projects. In 1999, free cash flow increased to $11.8 million ($1.22 per share) from $6.7 million ($0.70 per share). The increase resulted from the significant decrease in non-cash working capital.

Working capital represents the movement, year-over-year, of current assets and current liabilities. As a result of the successful application of an action plan to address the timing of collections, accounts receivable has decreased steadily from the 1998 levels. The increase in accounts payable from $10.4 million in 1998 to $14.3 million in 1999 can be attributed to payables relating to the expansion of the Baker facility in British Columbia.

The Company spent $1.5 million on sustaining capital in 1999, down $0.3 million from 1998. To maximize the scope for expansion capital investment, sustaining capital was managed at as low a level as prudently required to maintain the existing capital base.

Liquidity and Capital Resources

As can be seen from the table below, the majority of the funding required for 1999 came from free cash flow and the refinancing of the Company's long-term debt.

Expansion projects undertaken in the year included:

- The expansion and upgrade of the Baker facility pursuant to the new long-term agreement signed with the Overwaitea Food Group. The expansion, which continues into 2000, has an approximate total cost of $10 million.
- The implementation of new computer systems for transportation and accounting at a cost of $0.8 million. Both systems enhance the Company's ability to manage the day-to-day business through added functionality and position the Company to extend access to its customers and suppliers through the Internet.

($ millions)	1999	1998
Sources		
Free cash flow	$ **11.8**	$ 6.7
Disposal of capital assets	–	5.0
Net issue of long term debt	**6.5**	0.8
Other	–	–
	$ **18.3**	$ 12.5
Uses		
Expansion capital	$ **(6.9)**	$ (10.4)
Repayment of short term debt	**(4.7)**	–
Dividends	**(1.9)**	(1.9)
Financing fees	**(4.5)**	–
Other	**(0.3)**	(0.2)
	$ **(18.3)**	$ (12.5)

At the end of the year, the Company had cash and term deposits of $2.4 million. Total long-term debt was $130.7 million compared with $124.5 million in 1998. The majority of the Company's long-term debt matured on October 31, 1999 and was replaced with the new financing structure completed on October 22, 1999. The new structure provides the benefits of reduced cost of capital, increased financing capacity both immediate and future, and increased flexibility to respond to the needs of the business. The details of the new financing structure are more fully explained in the notes to the financial statements.

Consolidated debt as a percentage of total capital including deferred income taxes is up marginally from 58% in 1998 to 59% in 1999.

Management's Outlook

The Company's objective in 2000 is to achieve operational excellence through the provision of consistent service to its customers as outlined on page 13. To achieve this, the company plans to roll out the SOPs developed in 1999 to the four major distribution hubs by the end of the year. The remaining facilities will be converted during 2001.

Management's Report

The consolidated financial statements of Versacold Corporation have been prepared by the management and approved by the Board of Directors of the Company. Management is responsible for the preparation and presentation of the information contained in these financial statements and other sections of this Annual Report. The Company maintains appropriate systems of internal control, policy and procedures which provide management reasonable assurance that assets are safeguarded and the financial records are reliable and form a proper basis for preparation of financial statements.

The Company's independent auditors, KPMG LLP, have been appointed by the shareholders to express a professional opinion on the fairness of these consolidated financial statements. Their report is included below.

The Board of Directors ensures that management fulfills its responsibilities for financial reporting and internal control through an Audit Committee. This committee reviews the consolidated financial statements and reports to the Board of Directors. The auditors have full and direct access to the Audit Committee.

Sam Gudewill

Samuel H. Gudewill
Interim President and Chief Executive Officer
and Chairman of the Board

Janice Comeau

Janice M. Comeau
Vice-President and Chief Financial Officer

Auditors' Report to the Shareholders

We have audited the consolidated balance sheet of Versacold Corporation as at December 31, 1999 and 1998 and the consolidated statements of earnings, retained earnings and cash flows for the years then ended. These financial statements are the responsibility of the Company's management. Our responsibility is to express an opinion on these financial statements based on our audit.

We conducted our audit in accordance with Canadian generally accepted auditing standards. Those standards require that we plan and perform an audit to obtain reasonable assurance whether the financial statements are free of material misstatement. An audit includes examining, on a test basis, evidence supporting the amounts and disclosures in the financial statements. An audit also includes assessing the accounting principles used and significant estimates made by management, as well as evaluating the overall financial statement presentation.

In our opinion, these consolidated financial statements present fairly, in all material respects, the financial position of the Company as at December 31, 1999 and 1998 and the results of its operations and its cash flows for the years then ended in accordance with Canadian generally accepted accounting principles. As required by British Columbia's Company Act, we report that, in our opinion, these principles have been applied on a basis consistent with that of the preceding year.

KPMG LLP

Chartered Accountants
Vancouver, Canada
February 24, 2000

Consolidated Balance Sheets

December 31, 1999 and 1998 (thousands of dollars)

		1999	1998
Assets			
Current assets:			
Cash		$ **2,421**	$ –
Accounts receivable		**18,031**	19,207
Prepaid expenses		**1,213**	659
		21,665	19,866
Advances	note 3	**582**	408
Capital assets	note 4	**207,637**	205,642
Goodwill and deferred charges	note 5	**6,980**	3,252
		$ **236,864**	$ 229,168
Liabilities and Shareholders' Equity			
Current liabilities:			
Bank indebtedness	note 6	$ **–**	$ 2,260
Accounts payable and accrued liabilities		**14,322**	10,423
Income taxes payable		**123**	120
Deferred revenue		**1,465**	1,822
Current portion of long-term debt		**6,957**	117,856
		22,867	132,481
Long-term debt	note 7	**123,766**	6,696
Deferred income taxes		**27,188**	26,539
Shareholders' equity:			
Share capital	note 8	**47,281**	47,281
Cumulative translation account		**533**	554
Retained earnings		**15,229**	15,617
		63,043	63,452
		$ **236,864**	$ 229,168
Commitments	note 12		

On behalf of the Board:

Sam Gudewill

Samuel H. Gudewill
Director

F.R. Wright

Frederick R. Wright
Director

See accompanying notes to consolidated financial statements.

Consolidated Statements of Earnings

Years ended December 31, 1999 and 1998 (thousands of dollars except per share calculations)

	1999	1998
Revenue	$ **120,209**	$ 117,765
Direct profit contribution	**30,253**	34,764
Expenses:		
Amortization	**6,742**	7,322
General and administrative expenses	**8,760**	8,570
Interest expense	**11,721**	11,656
Provincial capital taxes	**472**	445
	27,695	27,993
	2,558	6,771
Other earnings	**529**	378
Income before income taxes	**3,087**	7,149
Income taxes (note 10)	**1,540**	3,123
Net earnings	$ **1,547**	$ 4,026
Earnings per share (note 2(f))	$ **0.16**	$ 0.42

Consolidated Statements of Retained Earnings

Years ended December 31, 1999 and 1998 (thousands of dollars)

	1999	1998
Retained earnings, beginning of year	$ **15,617**	$ 13,523
Net earnings	**1,547**	4,026
Dividends	**(1,935)**	(1,932)
Retained earnings, end of year	$ **15,229**	$ 15,617

See accompanying notes to consolidated financial statements.

Consolidated Statements of Cash Flows

Years ended December 31, 1999 and 1998 (thousands of dollars except per share calculations)

		1999	1998
Cash provided by (used in):			
Operations:			
Net earnings		$ 1,547	$ 4,026
Items not involving cash:			
Amortization		6,742	7,322
Loss (gain) on disposal of capital assets		64	(268)
Deferred income taxes		759	2,397
Cash flow from operations		9,112	13,477
Changes in non-cash operating working capital		4,158	(4,924)
		13,270	8,553
Financing:			
Issuance of common shares	note 8	–	161
Dividends		(1,935)	(1,932)
Repayment of long-term debt		(116,739)	(3,962)
Issuance of long-term debt		123,259	4,712
Decrease in bank indebtedness		(2,260)	(190)
Increase in deferred charges related to financing fees		(4,549)	–
		(2,224)	(1,211)
Investments:			
Increase in advances		(174)	(197)
Purchase of capital assets:			
Expansion capital		(6,936)	(10,433)
Sustaining capital		(1,478)	(1,833)
Proceeds on disposal of capital assets		22	5,047
Increase in deferred charges		–	(25)
		(8,566)	(7,441)
Changes in foreign currency denominated cash		(59)	99
Increase in cash		2,421	–
Cash, beginning of year		–	–
Cash, end of year		$ 2,421	$ –
Cash flow from operations per share	note 2(f)	$ 0.94	$ 1.40
Supplementary information:			
Interest paid		$ 11,519	$ 11,663
Income taxes paid		755	537

See accompanying notes to consolidated financial statements.

Notes to Consolidated Financial Statements

Years ended December 31, 1999 and 1998

The Company is incorporated under the laws of the Province of British Columbia. Its principal business activities include warehousing, freezing, processing and distributing food.

1. Basis of presentation:

The consolidated financial statements include the accounts of the Company and its subsidiaries, all of which are wholly-owned. All significant inter-company accounts and transactions have been eliminated.

2. Significant accounting policies:

(a) Capital assets:

Capital assets are stated at cost. Amortization is provided over the estimated useful lives using the following methods and annual rates:

Asset	Basis	Rate
Buildings	Sinking fund	*
Processing equipment	Straight-line	5%
Portable warehouse equipment	Declining balance	20%
Automotive equipment	Declining balance	30%
Leasehold improvements	Straight-line	10%
Office, furniture and equipment	Declining balance	20%
Computer hardware	Straight-line	33.3%
Computer software	Straight-line	20%

* Buildings are amortized using the sinking fund basis which provides for an amortization charge of a fixed annual amount increasing at the rate of 5% per annum over a period of 35 years.

(b) Goodwill:

Goodwill is recorded at cost less accumulated amortization and is being amortized on a straight-line basis over 20 years.

(c) Deferred financing costs:

Deferred financing costs are being amortized over the same term as the related debt facility.

(d) Deferred revenue:

Deferred revenue represents amounts for future services that are not recognized in income until the service is provided.

(e) Foreign currency translation:

The Company's wholly-owned United States subsidiary is considered to be a self-sustaining foreign operation. Accordingly, its assets and liabilities are translated into Canadian dollars at the exchange rate in effect at the balance sheet date, and its revenues and expenses are translated into Canadian dollars at the weighted average exchange rate for the year. Gains or losses on translation are deferred as a separate component in shareholders' equity.

(f) Earnings and cash flow from operations per share:

Earnings and cash flow from operations per share have been calculated based on the weighted average number of common shares outstanding during the years presented. Cash flow from operations is before changes in non-cash operating working capital.

(g) Derivative financial instruments:

The Company uses derivative financial instruments to manage risks in interest rates. All such instruments are only used for risk management purposes and are designated as hedges of specific

debt instruments and are not for trading or other speculative purposes. The counterparties to these contracts are major financial institutions. The Company accounts for these financial instruments as hedges and as a result the carrying values of the financial instruments are not adjusted to reflect their current market value. The net receipts or payments arising from financial instruments relating to interest are recognized in interest expense on an accrual basis.

(h) Use of estimates:

The preparation of the financial statements in conformity with Canadian generally accepted principles requires management to make estimates and assumptions that affect the reported amounts of revenues and expenses during the reporting periods. Actual results could differ from those estimates. Significant areas requiring the use of management estimates relate to the determination of the net recoverable value of accounts receivable, the provision for claims, and the useful life of capital assets.

3. Advances:

Advances are comprised of three loans to a former officer of the Company. The first loan was used by the officer to purchase a principal residence and is secured by the residence. The remaining loans, evidenced by promissory notes, were used by the officer to purchase shares of the Company and are partially secured by the shares. The loans are non-interest bearing and the repayment date is currently under negotiation.

4. Capital assets:

(thousands of dollars)	Cost	Accumulated amortization	1999 Net book value	1998 Net book value
Land	$ 17,043	$ -	**$ 17,043**	$ 17,072
Buildings	190,715	24,122	**166,593**	170,260
Equipment	34,674	15,735	**18,939**	17,961
Leaseholds	223	156	**67**	91
Construction in progress	4,995	-	**4,995**	258
	$ 247,650	$ 40,013	**$ 207,637**	$ 205,642

At December 31, 1999 the Company estimated costs to complete construction in progress to be $4,300,000 (1998 - $300,000).

5. Goodwill and deferred charges:

(thousands of dollars)	1999	1998
Goodwill	**$ 4,489**	$ 4,489
Deferred financing costs	**4,581**	2,134
Other deferred charges	**32**	521
	9,102	7,144
Less accumulated amortization	**(2,122)**	(3,892)
	$ 6,980	$ 3,252

6. Credit facilities:

The Company has available a committed operating line of credit for up to $10 million (1998: $12 million), bearing interest at prime plus 0.75% per annum. At December 31, 1999, $3.3 million (1998: $2.1 million) was used to secure letters of credit. Management has calculated that $8.7 million of the operating line of credit will be required to secure letters of credit by March 2000.

In addition, the Company has available a US$1.5 million financial products facility to hedge currency and foreign exchange exposures in the ordinary course of business. This facility had not been drawn at December 31, 1999.

Security provided for these credit facilities includes an assignment of trade accounts receivable.

7. Long-term debt:

(thousands of dollars)	1999	1998
Secured term loan, bearing interest at 8.87% per annum, repayable in monthly blended installments of $897,400, final principal due October 21, 2004	$ **89,510**	$ –
Secured term loan, bearing interest at 10.599% per annum, repayable in monthly blended installments of $709,803, final principal was due October 31, 1999	–	66,980
Secured term loan, bearing interest at 9.412% per annum, repayable in monthly blended installments of $340,020, final principal was due October 31, 1999	–	34,293
Loan, bearing interest at six month LIBOR plus 1.60% per annum, fixed every six months, interest payable monthly and principal repayments of $280,000 (U.S. $194,000) payable annually, final principal due December 1, 2005	**5,600**	–
Loan, bearing interest at six month LIBOR plus 1.75% per annum, fixed every six months, interest payable monthly and principal repayments of $337,326 (U.S. $220,000) payable annually, final principal due December 1, 2002	–	5,949
$30 million revolving term loan, bearing interest at a base rate of LIBOR, prime or bankers acceptance at the Company's option plus a premium ranging from 0.50% - 3.00% depending on the Company's performance and the type of base rate. The debt is repayable on a quarterly basis with the final principal due December 31, 2003	**30,000**	–
$15 million revolving term loan, bearing interest at the rate of prime plus 1% or bankers acceptance rate plus 2.12%, at the Company's option, final principal was due October 31, 1999	–	15,000
U.S. $2.5 million revolving term loan, bearing interest at the rate of LIBOR plus 1.85% or U.S. prime less 0.75%, at the Company's option, final principal due November 1, 2001	**3,608**	–
Capital lease obligations	**1,245**	2,330
Bond forward gain	**760**	–
	130,723	124,552
Less current portion	**(6,957)**	(117,856)
	$ **123,766**	$ 6,696

The secured term loan is secured by the following:

(a) $220,000,000 in demand debentures issued under a trust indenture providing for a principal amount of up to $220,000,000 creating a fixed and floating charge on all assets owned by the Company and certain subsidiaries; and

(b) an assignment of rents due to certain subsidiaries.

7. Long-term debt (continued)

The revolving term loan of $30,000,000 and the committed operating line of credit are secured by $80,000,000 in demand debentures issued under a trust indenture providing for a principal amount of up to $80,000,000 creating a fixed and floating charge on all assets owned by the Company and certain subsidiaries.

The secured term loan of $89,510,000 and the $30,000,000 revolving term loan contain provisions whereby Versacold is required, in the event of a change of control as defined within the facilities, to prepay all or any portion of the loans outstanding at the request of the lenders.

The new term loan also stipulates that the dividends may not exceed 50% of the cumulative net income determined commencing January 1, 1998. Prior to October 21, 1999, the annual dividends and repurchases of capital stock could not exceed 50% of the preceding year's net income without the consent of the term lenders.

The terms of the financing facilities also restrict distributions to a maximum of $1,000,000 to any one senior officer of the Company for the purpose of acquiring common shares of the Company and accommodating relocation expenses.

The loan totaling $5,600,000 (U.S. $3,880,000) and the revolving term loan totaling $3,608,000 (U.S. $2,500,000) are repayable in U.S. dollars. The loans are secured by a first deed of trust on all the assets and property owned by a subsidiary and an assignment of leases and rents of that subsidiary. To fix the LIBOR interest rate risk on the $5,600,000 (U.S.$3,880,000) loan, the Company entered into an interest rate swap contract with a notional amount of U.S.$3,880,000 which entitles the Company to receive interest at floating rates on the notional amount and fixes the rate exposure at 6.79% until August 1, 2005. The net interest receivable or payable under the contract is settled monthly with the counterparty, which is a major financial institution.

To fix the base interest rate risk (excluding the interest premium) on $15,000,000 of the revolving term loan, the Company has entered into an interest swap contract with a notional amount of $15,000,000 which entitles the Company to receive interest at floating rates on the notional amount and fixes the base rate at 6.03% until June 29, 2001. The net interest receivable or payable under the contract is settled quarterly with the counterparty, which is a major financial institution.

The bond forward gain represents the unamortized proceeds of a hedge transaction entered into for the term loan facility. The gain has the effect of reducing the interest on the secured term loan from 8.87% to 8.58% until December 2003.

At December 31, 1999, the aggregate repayments of principal on long-term debt and capital lease obligations due within the next five years are as follows:

(thousands of dollars)	
2000	$ 6,957
2001	10,656
2002	8,356
2003	24,926
2004	75,628

8. Share capital:

The authorized share capital of the Company consists of 50,000,000 common shares, without par value, and 20,000,000 preferred shares without par value, issuable in series.

As at December 31, 1999, the Company has issued 9,670,605 (1998 – 9,670,605) common shares at a stated capital of $47,281 (1998 - $47,281).

Pursuant to two Directors, Officers and Employees Stock Option Plans, the Company has reserved 193,000 common shares under the November 1, 1993 plan and 718,860 common shares under the

8. Share capital (continued)

March 31, 1995 plan. Options to purchase common shares of the Company under the Plan may be granted by the Board of Directors to certain directors and employees of the Company.

A summary of the status of the Company's stock option plans as at December 31, 1998 and 1999, and changes during the years ending on those dates is presented below:

	1999		1998	
	Shares	Weighted-average exercise price	Shares	Weighted-average exercise price
Outstanding at beginning of year	**726,500**	**$ 10**	619,000	$ 10
Granted	**95,000**	**9**	170,000	11
Exercised	–	–	(17,900)	9
Cancelled	**(39,000)**	**10**	(44,600)	10
Outstanding at end of year	**782,500**	**$ 10**	726,500	$ 10

As at December 31, 1999, there were 782,500 options outstanding at prices ranging from $9 to $12 per share and a weighted average remaining contractual life of 4.7 years. Additionally, there were 437,000 options which were exercisable as at December 31, 1999 at a weighted average exercise price of $10.

9. Pension plan:

The Company has a defined contribution registered retirement savings plan covering substantially all employees. The Company also offers certain executive officers a choice between a defined contribution plan or a defined benefit pension plan.

10. Income taxes:

The provision for income taxes is at an effective rate which differs from the basic corporate tax rate for the following reasons:

(thousands of dollars)		1999		1998
Provision for taxes	**36.0%**	**$ 1,111**	36.0%	$ 2,574
Increase resulting from:				
Large corporations tax	**14.8%**	**458**	5.2%	373
Permanent differences:				
Amortization on non-deductible portion of business combination	**7.2%**	**223**	2.8%	201
Non-taxable dividend	**(5.6%)**	**(174)**	–	–
Lower effective rate on income of foreign subsidiary	**(0.7%)**	**(28)**	(0.3%)	(25)
Other	**(1.8%)**	**(50)**	–	–
Income taxes	**49.9%**	**$ 1,540**	43.7%	$ 3,123
Comprised of:				
Current		**$ 781**		$ 726
Deferred		**759**		2,397
		$ 1,540		$ 3,123

11. Financial instruments:

Risk management activities:

The Company has entered into an interest rate swap contract as described in note 7 to reduce its exposure to fluctuations in interest expense.

Fair values:

The carrying values of current financial assets and liabilities approximate their fair values due to the relatively short periods to maturity of the instruments.

The carrying value of the Company's long-term debt also approximates its fair value, as the current rates have not changed significantly since the new financing structure was put into place in October 1999.

12. Commitments:

A subsidiary of the Company rents land and a cold storage facility under long-term operating leases which expire in 2010 and 2011, respectively. The land lease is subject to renegotiation of rent every three to ten years. In addition, various other contractual operating lease obligations have been included in the schedule below.

At December 31, 1999, the future minimum operating lease payments for the next five years and in aggregate thereafter are as follows:

(thousands of dollars)	
2000	$ 2,583
2001	2,438
2002	2,344
2003	2,011
2004	1,776
thereafter	10,883
	$ 22,035

13. Segmented information:

Versacold has two operating segments being the National Distribution Network, consisting of four distribution hubs, Montreal, Toronto, Calgary and Vancouver, and Warehouse Operations which includes the remaining centers. The two operations are managed separately to ensure focus on their key strategies. Each segment provides similar products and services, serves similar customers and has similar cash flows and economic characteristics. These segments have been aggregated for financial disclosure purposes.

14. Comparative figures:

Certain comparative figures have been reclassified to conform with the current year's presentation.

Unaudited Ten Year Summary Information

YEAR ENDED DECEMBER 31, 1999
(thousands of dollars, except per share calculations)

	1999	1998	1997	1996	1995	1994	1993	1992	1991	1990
Key Ratios										
Value Ratios										
Cash flow per share (CFPS $)	**0.94**	1.40	1.37	1.21	1.45	1.28	1.13			
Net income per share (EPS $)	**0.16**	0.42	0.47	0.16	0.68	0.55	0.85			
Free cash flow per share ($)	**1.22**	0.70	0.88	1.30	1.04	0.73	1.67		Note 1	
Book value per share ($)	**6.52**	6.57	6.34	6.07	6.05	6.10	5.35			
Price cash flow ratio (based on year end price)	**7.71**	7.07	8.36	6.49	7.24	8.01	9.73			
Cash flow return on equity (%)	**14.40**	21.60	22.20	19.80	25.30	27.80	47.70			
Net income return on equity (%)	**2.40**	6.50	7.60	2.70	11.80	12.00	35.70			
Dividends per share ($) (note 2)	**0.20**	0.20	0.20	0.10	–	–	–			
Proportionate to Revenue										
Direct profit contribution (%)	**25.2**	29.5	31.5	33.6	31.7	30.1	31.6	30.6	47.1	49.2
EBITDA (%) (note 3)	**17.9**	22.2	23.9	25.1	25.3	23.6	24.4	24.5	36.1	38.7
General and administrative (%)	**7.3**	7.3	7.6	8.5	6.5	6.6	7.1	6.1	11.1	10.5
Debt										
Long-term debt/total capital (%)	**59.2**	58.1	59.1	59.6	60.1	64.8	56.2	82.4	85.4	
Debt service ratio	**1.45**	1.60	1.60	1.60	1.79	1.75	–	–	–	–
Operating Results										
Revenue ($)	**120,209**	117,765	107,073	100,355	104,687	78,123	53,302	49,490	25,728	23,880
Direct profit contribution ($)	**30,253**	34,764	33,707	33,704	33,191	23,550	16,831	15,139	12,127	11,747
General and administrative ($)	**8,760**	8,570	8,158	8,530	6,762	5,131	3,801	3,030	2,851	2,505
EBITDA	**21,493**	26,194	25,549	25,174	26,429	18,447	13,030	12,109	9,276	9,242
Net income before special charges and sale of assets ($)	**1,588**	3,854	4,370	4,204	5,563	4,768	3,000	1,483	822	1,604
Net income ($)	**1,547**	4,026	4,548	1,568	6,604	4,768	4,225	1,483	822	1,560
Cash flow ($)	**9,112**	13,477	13,262	11,616	14,123	10,987	5,647	5,009	3,750	4,854
Free cash flow ($) (note 4)	**11,792**	6,720	8,497	12,468	10,140	6,306	8,309	4,918	2,560	5,572
Annualized Rates of Growth										
Revenue (%)	**2.1**	10.0	6.7	(4.1)	34.0	46.6	7.7	92.4	7.7	(5.1)
Direct profit contribution (%)	**(13.0)**	3.1	–	1.5	40.9	39.9	11.2	24.8	3.2	(12.3)
Net income before sale of assets (%)	**(58.8)**	(11.8)	4.0	(24.4)	16.7	58.9	102.3	80.4	(48.8)	(10.0)
Net income before sale of assets per share (%)	**(58.8)**	(11.9)	3.7	(23.4)	2.9	(7.9)	94.7		Note 1	
Cash flow from operations (%)	**(32.4)**	1.6	14.2	(17.8)	28.5	94.6	12.7	33.6	(22.7)	(19.4)
Cash flow from operations per share (%)	**(32.9)**	2.2	13.2	(16.6)	13.3	13.3	8.7		Note 1	

Note 1 Prior to December 1993, Versacold Corporation was a private company.

Note 2 Dividends of $0.05 per share were paid in each quarter beginning September 30, 1996.

Note 3 "EBITDA" means earnings before interest, taxes, depreciation, amortization and other income. EBITDA excludes sales of assets in 1993, 1995, 1997 and 1998 and special charges in 1996.

Note 4 The 1998 free cash flow has been restated to adopt the new presentation of the cash flow statement.

Unaudited Nine Year Summary Information

YEAR ENDED DECEMBER 31, 1999
(thousands of dollars, except per share calculations)

	1999	1998	1997	1996	1995	1994	1993	1992	1991
Balance Sheet									
Property, plant and equipment ($)	**207,637**	205,642	203,834	181,909	177,278	170,671	61,781	50,693	50,577
Additions to property, plant and equipment									
Sustaining ($)	**1,478**	1,833	1,546	1,940	1,892	1,498	477	601	450
Expansion ($)	**6,936**	10,433	26,285	9,170	9,063	15,307	6,039	604	4,153
Goodwill and deferred charges	**6,980**	3,252	4,219	4,474	7,213	7,901	4,057	4,392	5,307
Total assets ($)	**236,864**	229,168	223,123	210,499	209,278	207,617	98,745	65,131	63,979
Long-term debt ($)	**130,723**	124,552	123,381	117,099	118,254	125,136	50,566	49,220	49,902
Deferred income tax	**27,188**	26,539	24,142	21,076	19,631	15,534	12,809	13,474	12,730
Shareholders' equity ($)	**63,043**	63,452	61,183	58,391	59,032	52,473	26,672	(2,994)	(4,189)
Working capital ratio	**0.95**	1.07	0.81	1.31	1.51	1.10	3.09	1.37	1.11
Share Information									
Weighted average number of shares outstanding (note 5)	**9,671**	9,661	9,646	9,625	9,756	8,603	4,988	Note 1	
Share price									
High ($)	**9.80**	12.40	12.30	10.50	12.00	12.63	11.00		
Low ($)	**6.75**	9.00	6.65	7.85	9.13	9.25	9.00		
Y/E closing ($)	**7.25**	9.90	11.45	7.85	10.50	10.25	11.00		
Cash flow multiple (based on year end price)	**7.71**	7.07	8.36	6.49	7.24	8.01	9.73		
Daily average volume traded	**791**	661	8,366	12,010	2,550	6,154	5,068		
Other Information									
Number of facilities	**23**	23	24	26	28	28	13	12	12

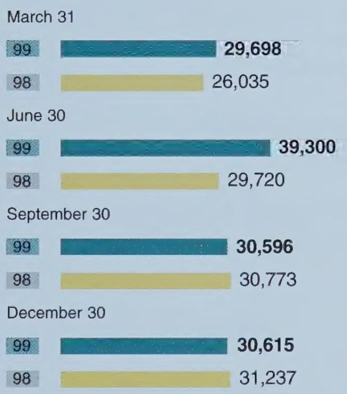
Note 5 The number of shares reflected for the years prior to 1993 have been calculated based on the percentage interest held by the exisitng shareholders at the time of the public offering.

Unaudited Quarterly Financial Information

YEAR ENDED DECEMBER 31, 1999
(thousands of dollars, except per share calculations)

	1st Quarter three months ended March 31, 1999	2nd Quarter three months ended June 30, 1999	3rd Quarter three months ended Sept. 30, 1999	4th Quarter three months ended Dec. 31, 1999	Full Year Total 1999
Sales	$ 29,698	$ 29,300	$ 30,596	$ 30,615	**$ 120,209**
Direct Profit Contribution	8,409	8,183	6,827	6,834	**30,253**
Cash flow	2,959	2,938	1,477	1,738	**9,112**
Cash flow per share	0.31	0.30	0.15	0.18	**0.94**
Net Income	823	599	109	16	**1,547**
Earnings per share	0.09	0.06	0.01	-	**0.16**
Free cash flow	2,671	4,806	682	3,633	**11,792**
Free cash flow per share	0.28	0.49	0.07	0.38	**1.22**

Sales
($000's)
(for the three months ended)



Earnings per share

(for the three months ended)

Cash flow per share

(for the three months ended)

Corporate Data

Board of Directors

H. Anthony Arrell [3]
Chairman and
Chief Executive Officer
Burgundy Asset
Management Ltd.

Yvan Bussières [2]
Vice President of Distribution
Alimentation Couche-Tard Inc.

Samuel H. Gudewill [2, 3]
Interim President and
Chief Executive Officer
Versacold Corporation
Chief Executive Officer
Innovex Equities Corporation

Patrick W.E. Hodgson [1]
President
Cinnamon Investment Limited

Joseph S. Houssian
Chief Executive Officer
Intrawest Corporation

Thomas J. Longworth [1]
Vice President
Industry Solutions
ISM (B.C.) Corporation

Thomas D. Smyth [2, 3]
Former Chairman
Presient and CEO
H.J. Heinz Company of
Canada Ltd.
Operator of Saugeen Acres
Ranch

Frederick R. Wright [1]
Partner
Capital West Partners

1 Audit Committee Member
2 Human Resources Committee Member
3 Corporate Governance Committee Member

Executive Officers

Samuel H. Gudewill
Chairman of the Board
Interim President and CEO

Janice M. Comeau
Vice President and
Chief Financial Officer

Robert A. Lewarne
Senior Vice President
Operations

Grant A. McMillen
Vice President and
Chief Development Officer

Ian A. Cameron
Vice President
Sales and Marketing

C. Mike Battistel
Vice President and
Chief Information Officer

Bruce McKay
Secretary

George W. Lawton
Controller

Corporate Data

Executive Offices

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Matsqui Center, Matsqui
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Valley Center, Abbotsford
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Victoria Center, Kamloops
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127th Ave. Center, Edmonton
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Great Plains Center, Calgary
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Mount Lawn Center, Calgary
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Ogden Center, Calgary
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Patrick Center, Saskatoon
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Manitoba

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Jarvis Street Center, Winnipeg
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Walker Drive Center, Brampton
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Quebec

Frigo Center, Montreal
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Washington

Cascade Center, Lynden
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Auditors

KPMG LLP
Vancouver, British Columbia

Shares Listed

The Toronto Stock Exchange
under the trading symbol "ICE".

Shareholder Relations

Registrar and Transfer Agent:
Montreal Trust Company
Vancouver, British Columbia
Calgary, Alberta
Toronto, Ontario
Montreal, Quebec
-or-
D. Newton
604.258.0315
email: dnewton@versacold.com

Annual General Meeting

The Annual General Meeting
of the Company will be held
at the Hyatt Regency Hotel,
655 Burrard Street,
Vancouver, British Columbia
at 10:00 a.m. on May 18, 2000.

VersaCold

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